



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**MANAGEMENT OF INTERNATIONAL ACTIVITIES,
DIVISION OF INTERNATIONAL AFFAIRS,
BUREAU OF RECLAMATION**

**REPORT NO. 95-I-1041
JULY 1995**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
wASHINGTON, D.C. 20240

JUL 14 1995

MEMORANDUM

TO: **The Secretary** *Wilma A. Lewis*

FROM: **Wilma A. Lewis**
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information -
"Management of International Activities, Division of
International Affairs, Bureau of Reclamation"
(No. 95-I-1041)

Attached for your information is a copy of the subject final audit report.

Division of International Affairs funds were used for reasonable and necessary expenses for foreign activities as authorized by applicable laws, regulations and Bureau of Reclamation policies. However, during 1991 through 1994, the Bureau did not recover up to \$1 million annually of indirect costs relating to its international activities.

We recommended that the Bureau implement a cost allocation plan to obtain full reimbursement for costs associated with its international activities, especially any costs without tangible benefit to the Bureau's domestic programs. The Bureau agreed with our recommendation and stated that it would review its cost allocation processes and make necessary adjustments to ensure appropriate reimbursement from foreign governments.

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
 Headquarters Audits
 1550 Wilson Boulevard
 Suite 401
 Arlington, VA 22209

JUL 7 1995

MEMORANDUM AUDIT REPORT

To: Assistant Secretary for Water and Science
Marvin Pierce
 From: **Marvin Pierce**
 Acting Assistant Inspector General for Audits

Subject: Final Audit Report on Management of International Activities, Division of International Affairs, Bureau of Reclamation (No. 95-I-1041)

INTRODUCTION

The Office of Inspector General has completed a review of the Bureau of Reclamation's management of international activities for fiscal years 1991 through 1994. The objective of our review was to determine whether: (1) funds for international activities were used only for reasonable and necessary purposes; and (2) the Bureau obtained appropriate reimbursement for costs for international activities.

BACKGROUND

The Bureau's Division of International Affairs is responsible for establishing policies and developing programs and procedures for use during the Bureau's participation in international activities. These activities include providing specific foreign technical assistance, such as engineering evaluations and project design and feasibility studies, and training projects for foreign nationals and attending foreign project-related meetings and technical seminars.

The Bureau's current policy is to obtain reimbursement from project beneficiaries for all costs of international activities, such as providing assistance at specific foreign locations, unless the Bureau's domestic programs benefit from the activities. During fiscal year 1993, the Bureau was involved in reimbursable projects in 13 foreign countries. Examples of overseas projects include the Three Gorges Dam in China, the Aswan High Dam Powerplant in Egypt, and the HYDROS Project in Saudi

Arabia. Bureau costs (including both direct and indirect) for these projects totaled about \$6.1 million, and costs of about \$5.0 million were reimbursed. Sources of funds for the reimbursable costs are the World Bank, the United Nations, the U.S. Agency for International Development, and the benefiting host country.

SCOPE OF AUDIT

Our audit was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We interviewed Bureau officials responsible for conducting the international activities, and we reviewed pertinent records and cost accounting data for fiscal years 1991 through 1994. The review was performed at the Division's Washington, D. C., and Lakewood, Colorado, offices.

In addition, we reviewed the Secretary's Annual Statement and Report to the President and the Congress for fiscal year 1993, required by the Federal Managers' Financial Integrity Act of 1982, to determine whether any reported weaknesses were within the objective and scope of our audit. We determined that none of the reported weaknesses were directly related to the objective and scope of our audit.

PRIOR AUDIT COVERAGE

Neither the General Accounting Office nor the Office of Inspector General has issued any audit reports on the Bureau's international activities during the past 5 years.

RESULTS OF AUDIT

We concluded that during fiscal years 1991 through 1994, Division of International Affairs funds were used for reasonable and necessary expenses for foreign activities as authorized by applicable laws, regulations, and Bureau policies. We determined, however, that the Bureau did not adequately pursue recovery of all appropriate indirect costs relating to its international activities. Part 346 of the Department of the Interior Manual requires bureaus to recover both the direct and indirect costs of providing special benefits to identifiable recipients. However, officials in the Division of International Affairs were following Bureau policy that was effective for periods prior to November 1993 which did not require reimbursement of indirect costs related to international activities. Even though costs recovered by the Bureau included some indirect costs, we believe that up to \$1 million annually in additional indirect costs could be recovered.

On November 1, 1993, through his Blueprint for Reform, the Commissioner established a new policy for the Bureau's international activities, which stated:

International work will be undertaken only if requested by others and only if it does not conflict with the Administration's objectives or interfere with Reclamation's primary responsibilities, is fully reimbursable, and will help ensure responsible resources development and management.

This policy was reiterated in the Commissioner's International Affairs Policy Statement, dated October 12, 1994, which stated, "Reimbursement will be necessary unless there are tangible benefits to Reclamation's domestic programs." During our audit, we identified fiscal year 1993 costs of approximately \$1 million that we believe could have been allocated to reimbursable activities but that had not been billed to the benefiting country. Based on similar data for 1991 and 1992, we determined that the Bureau's indirect costs that were not reimbursed exceeded more than \$1 million annually. Reimbursement of these costs could result in more funds being available for other foreign projects or future budget requests being reduced accordingly.

Bureau officials told us, however, that a portion of the \$1 million in annual unreimbursed costs was for activities which also benefited the Bureau and that these costs appropriately had not been charged to foreign countries. However, the Bureau did not identify what portion of indirect project costs benefited its domestic programs or which programs benefited. The unreimbursed costs were charged directly to the Bureau's General Administrative Expenses appropriation in accordance with Bureau policy.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation, implement a cost allocation plan to obtain full reimbursement for costs associated with its international activities, including all indirect costs, in providing assistance to foreign governments. Any costs without tangible benefit to the Bureau's domestic programs should be recovered through an appropriate charge to the foreign countries.

Bureau of Reclamation Response

The April 13, 1995, response (Appendix 1) from the Commissioner, Bureau of Reclamation, concurred with our recommendation, stating that the Bureau would review its cost allocation processes and make necessary adjustments to ensure full reimbursement from foreign governments when there are no tangible benefits to the Bureau's domestic program.

Office of Inspector General Comments

The Bureau's response was sufficient for us to consider the recommendation resolved but not implemented. Accordingly, the recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

The Bureau's response was considered in preparing the final audit report, and changes were made as appropriate.

Other Matters

At the beginning of our audit, the Bureau's Deputy Commissioner asked us to review the Bureau's practice of crediting revenues for foreign travel. Bureau personnel sometimes travel to international conferences and seminars at the request of foreign governments but initially pay for the travel with appropriated Bureau funds. Foreign governments ultimately reimburse the Bureau for the travel expenses. The Deputy Commissioner wanted to know how these revenues should be credited. This issue was discussed in our December 1989 report "General Administrative Expenses Appropriation, Bureau of Reclamation" (No. 90-20), which recommended that this type of revenue be credited to Miscellaneous Revenues and returned to the U.S. Treasury. On October 9, 1992, the Department's Office of the Solicitor issued an opinion stating that such revenue items can be returned to the appropriations account which was originally charged. Accordingly, we believe that this decision adequately addresses the Deputy Commissioner's concerns regarding the disposition of these revenues.

Since the report's recommendation is considered resolved, no further response to this office is required (see Appendix 2).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Commissioner, Bureau of Reclamation



United States Department of the Interior

BUREAU OF RECLAMATION
WASHINGTON, D.C. 20240

IN REPLY
REFER TO:

D-5010
ADM-8.00

APR 13 1995

MEMORANDUM

To: Office of Inspector General
Attention: Assistant Inspector General for Audits

From: *[Signature]* Daniel P. Beard
Commissioner

Subject: Draft Audit Report on "Management of International Activities, Division of International Affairs, Bureau of Reclamation" (C-IN-BOR-001-94)

The Bureau of Reclamation (Reclamation) offers the following comments in response to the recommendation. Additional comments on the text of the report are attached.

Recommendation

We recommend that the Commissioner, Bureau of Reclamation, implement a cost allocation plan to obtain full reimbursement for costs of International Affairs operations, including all indirect costs, in providing assistance to foreign governments. Any costs without tangible benefit to the Bureau's domestic programs should be recovered through an appropriate indirect overhead rate charged to the foreign countries.

Response

Concur. Reclamation will review its cost allocation procedures and processes and make the necessary adjustments to ensure that full reimbursement is obtained for all costs of providing assistance to foreign governments where there are no tangible benefits to the domestic program.

The responsible official is the Chief, International Affairs. The target date for implementing this recommendation is December 31, 1995.

If you have any questions or require additional information, please contact Luis Maez at (303) 236-3289, extension 245.

Attachment

cc: Assistant Secretary - Water and Science, Attention: Margaret Carpenter
Office of Financial Management, Attention: Wayne Howard
(w/attach to each)

Additional Comments

Draft Report on Management of International Activities,
Division of International Affairs
C-IN-BOR-001-94

Reclamation appreciated the opportunity to discuss the preliminary draft report before the draft report was issued. Comments were provided on both the findings and the recommendation. While the draft report reflects parts of our discussions and comments, some issues were not addressed. The following reiterates some of the unincorporated comments that warrant additional attention.

In general, the report would seem to suggest that virtually all of Reclamation's international activities should be reimbursed. However, a considerable share of our international activities support our domestic mission and thus remain appropriate to fund from General Administrative Expense (GAE) appropriations. Reclamation does not believe the report gives a balanced picture of its international program in this regard.

Pages 3 and 4, the last sentence to begin on page 3 and the first sentence to begin on page 4. "However, officials in the Division of International Affairs . . . costs of up to \$1 million annually were not being recovered" implies that no indirect costs were being recovered because of the current policy. In fact, Reclamation has generally been reimbursed for indirect costs associated with work for foreign entities pursuant to the provisions of the Economy Act, 31 U.S. C. 1535, and various other laws, regulations, and governmental accounting guidelines.

Page 5, first paragraph. This section implies that charging any costs to GAE is inappropriate. As indicated above, Reclamation disagrees with this position.

APPENDIX 2

STATUS OF AUDIT REPORT RECOMMENDATION

<u>Finding/ Recommendation Reference</u>	<u>status</u>	<u>Action Required</u>
1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

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